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Foreword

One single bank of issue for the whole Reich is the best solution in every respect. Otherwise there has to be coordination among the different banks or there will be danger of having various types of currency coexistent. This would lead to still other differences in economic policy and delay the unification of the Reich. However, my instructions were that a decentralized system is demanded by the occupying powers. It is a basic principle that the same regulation must be in effect in all four zones.

Basic Problems

1. Federal Reserve System ?

There might be an urge to seek a basis for such a decentralized bank of issue system in the example of the Federal Reserve System of the USA; but that would be wrong, or at least dangerous, because two basic conditions are lacking: first, Germany has no metal backing and, second, this decentralization principle in the USA is actually, if not legally, replaced by a completely centralized organization inasmuch as the Federal Reserve Bank of New York has such a dominant position that it can actually be considered a sort of central bank. In Germany, however, no state capital, e.g., Munich, Berlin, Dresden, Hamburg, etc., would be willing to subordinate itself to the others. In other words, all the grave problems connected with such a system, which the USA is fortunately able to evade, would be fully effective in Germany.

2. No Gold Basis, Therefore Paper Currency

The lack of a gold basis forces the future German currency to be erected on some other basis than metal. German economy cannot be expected to gain the necessary gold by export because in Germany's present condition (which will not change in the near future) the import of food and raw materials must necessarily have priority. Conse-

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quently, the gold currency would have to be bought by renouncing essential goods, which would be too expensive. Germany's supply of foreign exchange is also insufficient to erect a currency system on this basis. Accordingly, the only possibility is to set up some sort of paper currency.

3. State Paper Money or Bank Notes ?

There are two possibilities - state paper currency or bank notes. In my opinion the second possibility must be chosen. A pure state paper currency can actually be so managed that its stability can be guaranteed. Nevertheless, this solution must be rejected because the influence of the governments would be all too strong - actually decisive, and the stability of the currency and a healthy monetary policy in general would depend not only on the good intentions of the various state governments but also on the availability of well qualified monetary and currency experts and of well based business institutes. It seems to me that we do not have sufficiently qualified men and establishments in every German state. Also, psychologically, a departure from state paper currency, such as we have had in disguise, is necessary because the people as a whole would regard such a system with the greatest distrust. A currency reform not based on the confidence of the people is senseless. For these reasons we must choose a bank note currency, that is, a money system based on the issuance of bank notes.

4. Guarantee

Under such a system usually the first question asked is that of backing. This is wrong, for the basic question is the return of bank notes and thus the economically necessary limitation of total circulation. This fact, too, favors a bank note currency which guarantees an automatic return much better than a state paper currency, under which a return occurs only roundabout by a calling in of notes through tax surpluses; that is, financially, whereas in a bank note currency this return is guaranteed by monetary (credit) policy.

5. Issuance of Notes

Under a state paper currency system the notes are issued by the state, essentially through financial transactions, whereas with a bank of issue the basis is credit. So, with the latter we have a credit money rather than an autonomous currency.

6. Coordination by a Central Office

The fact that issue and recall of money are handled in accordance with bank of issue policy, that is, according to the currency needs of the economy of the state concerned, makes coordination of the policy of the various banks of issue necessary. Accordingly, it is proposed that a Central Office be created to supervise and regulate the policy of the various banks. This is so necessary that the entire system of decentralized banks of issue will stand or fall on this point. All the ideas proposed by me must be understood with the condition that such a Central Office is guaranteed. When it

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exists, it will be a guarantee that no varying currencies are issued by the different banks.

7. Functions and Composition of the Central Office

The Central Office will assume the following functions: determine the discount rate (which, if necessary, can vary with the different banks), regulate or even take over foreign exchange management, observe political-economic connections, collect and publish statistics, etc., establish a clearing house for all banks of issue, and, finally, maintain connection with the German central government. The Central Office might also be given a voice in the appointment of the presidents of the banks of issue.

8. Validity of Bank Notes

The bank notes of the various state banks must naturally be valid in the entire country. Parallel with this is the freedom of economy, that is, the lifting of any sort of economic barriers between the different states. Until these conditions are met there would be no sense beginning the banks of issue. The individual bank of issue would issue as many notes (that is, create as much book money) as credit might be asked of it in the form of exchange discounts. The varying economic development of the different states would affect the status of the banks of issue. Differences in the value of the notes of the various state banks cannot arise so long as complete economic free trade is guaranteed.

9. Position of the Banks of Issue

The banks of issue have to stand outside the regular bank system, that is, they must be new institutes. None of the present state banks can be allowed to take over bank of issue functions. This provision is of especial importance in the Russian Zone, where every state has one monopolistic state bank. A coupling of the state bank and the state bank of issue in one institute would wipe out the distinction and render public control of bank of issue policy difficult. Also, only in this way can the necessary attention be paid to the existing differences in the banking situation in the Russian Zone and the Western Zones. The banks of issue are to be established pretty much in accordance with the bank law of 1924, that is, they must be independent of the government. They are bound legally to fulfill their function as a public economic agency and are forbidden any profit.

Special Problems

On the basis of these suppositions it is clear that the planned banks of issue must be established uniformly throughout the whole country, and this independent of the question what organization the credit banks will have. In the West the old private credit banks are still retained; there, accordingly, there are numerous banks to do business with the bank of issue; in the Russian Zone there is only one monopolistic state bank opposite each bank of issue. But this fact does not force a varying form of banks of issue in the

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individual states. This is true not only in basic problems, but also in the regulation of special problems. I propose two sorts of note issue: a labile portion based on commercial bills (Warenwechsel), plus collateral, etc., to make possible the necessary adaptation to the given need for money, and a stable portion called the solid contingent. Here the following ideas are decisive:

1. Commercial Bills, Not Open Market Policy as Basis

On the basis of the ideas presented above, it is necessary to reach a solution of the question of note issue and note recall which is not subject to arbitrary influence by the state governments, so that a sort of automaticity is guaranteed. Since a metal currency is impossible and since also public bonds are also basically impossible, the only possible basis is commercial bills plus checks, foreign exchange, and collateral. Eventually any gold which might be bought up could also be brought into consideration, but this will play no great role for the time being.

One might doubt whether a commercial paper will guarantee a sufficient supply of money in the future, since it is well known that it has lost a lot of importance in the past decade. But actually this was caused by the fact that the money fluidity of most businesses made possible giro payment and made commercial papers unnecessary. When businesses lose this fluidity they must use either a check or collateral. This paper goes to the credit bank; if the latter is sufficiently liquid it will keep it on hand and not create any new money - which is in accord with the actual situation; however, if it needs fluid means, it passes the paper on to the bank of issue. Thus the banks of issue, basically, take only bank acceptances. Only by this passing on to the bank of issue is money created. Thus only as much new money is created as the economy demands and this automatically flows back with the redemption of the bill of exchange. Therefore, finance bills are excluded and 90 day bills of exchange can be extended only once. In this way automaticity is achieved, even if not on the basis of a metal currency. As a consequence of this policy, the so-called open market policy must be forbidden the banks of issue, except perhaps with special permission or by direction of the central office, which may make a sparing use of this possibility in special cases for political-economic reasons.

2. Fixed Contingent

It must be realized that the bill of exchange (plus foreign exchange, collateral security, etc.) cannot form the sole basis of note currency. A certain amount of money must be available to replace the present currency circulation and later to cover the currency need which cannot be called to life by the above-mentioned credit measures. Therefore, a so-called fixed contingent must be issued which must be determined by the exchange ratio in which the old money is exchanged for the new. In regard to this exchange ratio we can say nothing here because that depends on the basic regulations of the coming currency reform. The essential thing is that such a fixed contingent must be created.

Naturally it would be possible to create this fixed contingent

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out of state paper (similar to the old Reichskassenscheine). The states, in this way, would be able to create this minimum amount of means of payment without any financial obligations; also this could be disguised by bringing in treasury bills. However, it would be used partly to establish a sufficient fund as a means of business, but mainly to redeem the old paper money (the tempo of this redemption can be suited to the demands of the budget). Whether this redemption should be undertaken by the banks of issue alone or by some organization ad hoc is a question of secondary importance; also such questions as measures (such as stamping, etc.) to hit owners of illegal treasures, that is, to keep them from turning it into new money, cannot be handled here. The main thing is to keep this fixed contingent so small that it is less than the amount of money required by the economy in order to allow sufficient free play for the issuance of notes based on bills of exchange.

It might have been possible to assign the issuance of this fixed contingent to a central market; then we would have had national notes and state notes. This solution would be surely worth consideration if it is politically possible. It would mean that the Central Office, besides its coordinating and regulatory functions, would also have bank of issue functions. Both solutions are worth discussion. However, in favor of renunciation of such national notes we have the greater uniformity of the organization.

The combination of this fixed contingent with the bill of exchange combines the necessary production of a sufficient means of payment as a minimum with the possibility of being able to continue to create new money in the form of bank notes in accord with the monetary needs of the economy.

3. Strict Liquidity Provisions for the Credit Banks

To prevent the credit banks creating additional book money, a strict liquidity law must be executed; the details are unnecessary here. In the Western Zones the choice of the basis of conversion (whether cash or giro) must be stricter than in the banks of the Russian Zone (since the latter have already wiped out the old accounts) in order to prevent the bank deposits from leading to the creation of too much additional money.

4. Other Functions

The banks of issue carry on the cash transactions of the state government; also they receive a part of the cash reserves of the credit banks as deposits.

5. Uniform Foreign Exchange Policy

A uniform foreign exchange policy and management in the hands of the Central Office is essential because, otherwise, those states which, on the basis of their export industry, would have a relatively large amount of foreign exchange would endeavor to use it for the interests of their own economy, and because, on the other hand, there might easily be a psychological temptation to value the notes of such banks as have a large foreign exchange backing above par, whereupon there might be unwanted internal German currency manipulations. As

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soon as the German economy develops somewhat, these fears would probably be groundless; however, until then, some such cautious measure is to be recommended. This problem also would be avoided if a single, central bank of issue could be created.

Conclusion

The regulation proposed here would not be as good as re-establishing the old Reichsbank; but even with a new Reichsbank the old currency basis of 1924 could no longer be used, since we lack the necessary gold and foreign exchange. Therefore, in any case, a new basis must be sought. The proposals offered here might thus find use. The question of the ratio to other currencies is not a German problem but depends on the decision of the victorious powers. The defense of the German mark, since gold and foreign exchange are lacking, would depend mainly on the foreign trade policy, credit policy, and discount policy, but here, too, for a long time we will be dependent on the victorious powers. The solution proposed, by means of its automaticity, would prevent any attempt through devaluation to change currency ratios and foreign trade relations. Naturally, reestablishment of banks of issue must be preceded by a final solution of the German monetary problem (currency reform) and by a disposition of the national debt. Otherwise a decentralized bank of issue system cannot become viable in Germany; likewise, the revitalization of German economy, which is a long way off, must also be guaranteed. The establishment of banks of issue and a new currency form, as well as the currency reform itself, is senseless without a recovery of German economy; if we try to bring it about without this precondition, we will again throw away public confidence, as far as it still exists, and thus create a still less favorable point of departure for a later attempt.

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